

MARKETBEAT

Birmingham, AL

Office Q1 2018



BIRMINGHAM OFFICE

Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
Birmingham-Hoover Employment	523k	534k	▲
Birmingham-Hoover Unemployment	5.9%	3.4%	▼
U.S. Unemployment	4.7%	4.1%	▼

Numbers above are quarterly averages; Feb 2018 data used to represent Q1 18 for Birmingham-Hoover

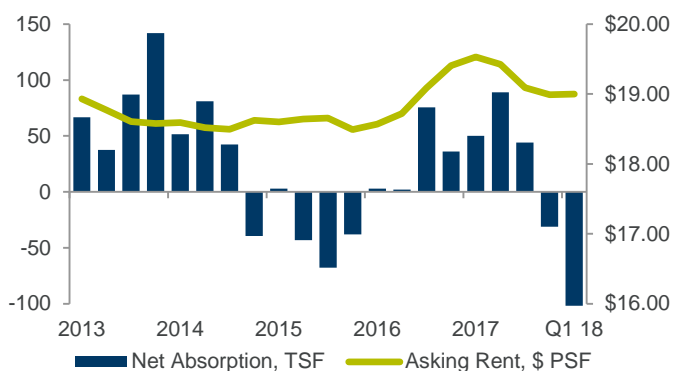
Market Indicators (Overall, All Classes)

	Q1 17	Q1 18	12-Month Forecast
Vacancy	12.6%	15.9%	▼
YTD Net Absorption (sf)	24k	-388k	▲
Under Construction (sf)	300k	200k	■
Average Asking Rent*	\$19.31	\$19.35	▲

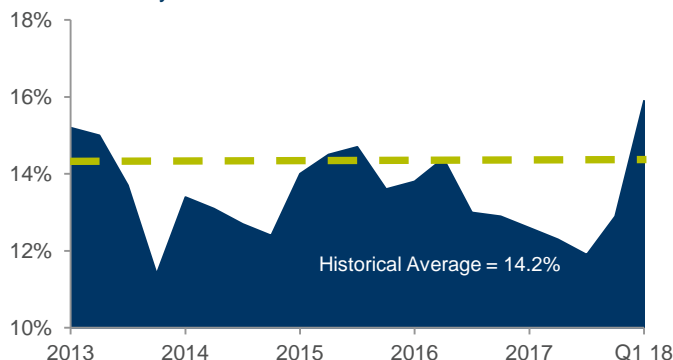
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Following a year of healthy growth, Alabama's economy continued its steady upward momentum in the first quarter of 2018. According to the Alabama Department of Labor, the state's unemployment rate ended the quarter at 3.7%, down from 5.3% recorded this same time last year. Alabama's positive business climate has created an inviting and affordable environment for start-ups, spurring growth in Birmingham's tech sector and landing the city on Livability.com's recent list of "Five Up-And-Coming Tech Hotspots" to watch in 2018.

Market Overview

Birmingham's multi-tenant office market recorded negative overall absorption of 387,710 square feet (sf) in first quarter of 2018, primarily due to two large corporate relocations. Regions Bank vacated 160,000 sf at Regions Harbert Plaza in Birmingham's Central Business District (CBD) to consolidate at its nearby headquarters. Southern Company began its phased relocation of 450,000 sf at Inverness Center 40, 42 and 44 in the U.S. Highway 280/Southern (280/Southern) submarket to its new 677,478-sf headquarters at Colonnade North and Colonnade South office buildings, putting these properties back into use after several years of being vacant. In more good news, FIS will backfill a portion of Southern Company's space at Inverness Center 44 and move into 112,500 sf in fourth quarter of 2018.

Overall weighted average asking rents for the Birmingham market increased slightly to \$19.35 per square foot (psf). The Midtown submarket maintained the highest rental rate across all submarkets with an average overall rate of \$21.93 psf, followed closely by the CBD and 280/Southern submarkets, with average rates of \$20.81 psf and \$19.32 psf, respectively. In development news, Encompass Health (formerly HealthSouth) completed construction on its 200,000-sf headquarters building in the 280/Southern submarket at the close of first quarter.

Outlook

While it appears Birmingham's multi-tenant office market had a disappointing quarter from a statistical perspective, the overall market remains stable. As the year progresses and Alabama's economic climate continues to strengthen, commercial leasing activity is expected to remain healthy throughout the year as businesses continue to lease new space. Additionally, there are several mixed-use, hotel, and multi-family development projects currently underway in Birmingham's CBD, increasing excitement and momentum for the office market as a whole.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)*	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)**	OVERALL AVERAGE ASKING RENT (CLASS A)**
CBD	5,938,217	98,462	714,101	13.7%	-208,391	-208,391	56,032	0	\$20.81	\$25.25
Midtown	4,181,896	3,029	372,991	9.0%	-2,639	-2,639	41,358	0	\$21.93	\$23.40
280/Southern	5,469,320	164,047	599,292	14.0%	-151,838	-151,838	71,618	200,000	\$19.32	\$19.39
Hoover/Riverchase	2,000,584	11,462	318,019	16.5%	7,245	7,245	14,632	0	\$18.14	\$21.83
Vulcan/Oxmoor	1,964,563	81,392	740,245	41.8%	-32,087	-32,087	10,407	0	\$17.25	\$21.50
BIRMINGHAM TOTALS	19,554,580	358,392	2,744,648	15.9%	-387,710	-387,710	194,047	200,000	\$19.35	\$21.15

*Does not include renewals. **Rental rates reflect gross asking \$psf/year.

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	13,277,894	233,475	1,747,802	14.9%	-309,480	-309,480	93,864	200,000	\$21.89	\$21.15
Class B	5,451,021	124,917	925,543	19.3%	-99,263	-99,263	73,561	0	\$16.71	\$16.13
Business Park	825,665	0	71,303	8.6%	21,033	21,033	26,622	0	\$13.28	\$17.04

Key Lease Transactions Q1 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2700 Meadow Brook South	27,600	ESS	New	280/Southern
Two North Twentieth	20,000	Small Business Administration	New	CBD
Renasant Place	17,889	Cabaniss Johnston	Renewal*	CBD
Inverness Center 104	15,864	AQAF	New	280/Southern
Two Perimeter Park South	8,614	Ebix	New	280/Southern
Urban Center 1500	8,410	Ameriprise	Renewal*	280/Southern

*Renewal - not included in Leasing Activity Statistics

Key Sales Transactions Q1 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
600 19 th Street North	700,000	BNY Mellon / 600 19 th Street LLC	\$29,300,000 / \$42	CBD
720 Montclair Road	50,845	Baptist Health System Inc / Drummond Company	\$2,900,000 / \$56	Midtown
3620 8 th Avenue South	33,317	Ram Tool Company / United Way Worldwide	\$3,200,000 / \$96	Southside

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